

SECRET

OUTWARD PROCESSING IN TEXTILES

ISSUE

During the preliminary stages of last year's Multifiber Arrangement (MFA) negotiations, the Commission negotiators proposed rolling back textile trade from their dominant suppliers but providing a partial offset through a special quota for products made from EC components. (These products are known as outward processing traffic, or OTP.)

We, and others, refused to accept language in the new protocol which would sanction OTP quotas and told the EC repeatedly that if it concluded agreements with OTP quotas, we would challenge them in the MFA or the GATT or both. By giving special treatment to apparel made from EC fabric through OTP quotas, the EC would be in violation of the most-favored-nation principle and would prevent EC textile suppliers from sourcing from the United States and other countries in filling those quotas.

In the first half of this year, we have concluded bilateral agreements with our major suppliers that did not include either cutbacks in quotas or special compensatory quotas for OTP. Because of our strongly-held view of the illegal nature of the outward processing traffic as envisaged by the EC, as well as our concern for equity, we informed Hong Kong and Korea that we would reopen our bilateral agreements, if such an OTP arrangement was included in their bilateral agreements with the EC. Likewise, we again restated our views in a letter from U.S. Chief Textile Negotiator (Murphy) to the EC Chief Textile Negotiator (Krenzler). EC Commissioner Davignon has subsequently expressed irritation that the United States is interfering in EC matters.

CURRENT SITUATION

The European Commission, because it has a negotiating mandate from the member states to pursue cutbacks in quotas to be compensated by outward processing arrangements, is continuing to seek such agreements despite the results of the Multifiber Arrangement negotiations. The EC, however, because of its highly protectionist mandate has been unable to conclude bilateral textile agreements with its major suppliers. Their next round of negotiations will most likely take place in September and October.

In recent contacts with the EC, we have stressed that the Murphy letter to Krenzler was only a reaffirmation of the U.S. position and not meant to be contentious, but to be sure that the record was clear. We again also highlighted our concerns over the negative and far-reaching implications for trade in other sectors if this approach is pursued.

NSC review completed

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